

REPORT OF
ASSOCIATION FINANCIAL EXAMINATION

TRADERS INSURANCE COMPANY

AS OF
DECEMBER 31, 2005

STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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Kansas City, Missouri
May 19, 2006

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, (E) Financial Condition Committee, NAIC

Honorable Jorge Gomez, Commissioner
Wisconsin Department of Insurance
Midwestern Zone Secretary

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Traders Insurance Company

hereinafter referred to as such, as the "Company" or as "Traders." Its administrative office is located at 8916 Troost, Kansas City, Missouri 64131, telephone number (816) 822-1887. This examination began on March 6, 2006 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior comprehensive financial examination of Traders Insurance Company was made as of December 31, 2002 and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination of the Company covers the period from January 1, 2003 through December 31, 2005 and has been conducted by examiners from the State of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The Company's independent auditor is Johnson Lambert & Company of Charleston, South Carolina. The independent auditors were conducting the year end 2005 statutory audit concurrently with our examination; therefore, the workpapers of the independent auditor for the 2005 audit were not available during our examination fieldwork. Examiners relied upon information supplied by Johnson Lambert & Company for its audit covering the period from January 1, 2004 through December 31, 2004. Information relied upon was mainly limited to the evaluation of fraud risks and narrative descriptions of processes and controls.

Comments-Previous Examination

Listed below are notes, comments and recommendations of the previous examination report dated as of December 31, 2002 and the subsequent response or action taken by the Company.

Corporate Records

Comment: Inconsistencies were noted during the review of the minutes of the Board of Directors' meetings, including the lack of documentation regarding election and removal of directors and officers. The Company was advised to ensure that changes in the composition of its directors and officers be properly documented in the corporate records.

Company's Response: The Company will ensure that changes in directors and officers are properly documented in the corporate records.

Current Finding: Changes in the Company's directors and officers as well as other various corporate events occurring during the exam period were documented in the Board of Directors' meeting minutes.

Intercompany Agreement with Concannon Group of Companies, Inc. (CGC)

Comment: Problems were noted during the review of the trust account portion of this agreement. The Company was directed to perform detailed monthly reconciliations on the premium trust account, provide documentation of ownership of the account balance at any time and avoid the commingling of Traders and CGC funds in the premium trust account.

Company's Response: The Company has filed with the MDI an amended agreement whereby the premium trust account will be owned, controlled and carried on the books of Traders. Previously, this account was in the name of CGC for the benefit of Traders.

Current Finding: The premium trust account and related premium accounts are all being carried on the books of Traders Insurance Company in accordance with the above referenced agreement filed with the MDI.

Tax Sharing Agreement

Comment: The Company was advised to amend this agreement to reflect changes in the make-up of the member companies.

Company's Response: Traders amended its Tax Sharing Agreement to reflect the addition of Christopher Joseph & Company as a party to the agreement effective June 1, 2002.

Current Finding: The Company entered into a new Tax Sharing Agreement effective September 25, 2003. The new agreement contains the names of all parties to the agreement.

Accounts and Records

Comment: The custodial agreement between Traders and its securities depository did not meet the requirements outlined in the Financial Examiners Handbook of the NAIC. The Company was directed to either cause its custodian to amend the agreement to include all the required sections or enter into an agreement with a different securities depository that would accept all the requirements and obligations.

Company's Response: On July 21, 2003, the Company provided the MDI with a copy of the newly executed custodial agreement with Smith Barney that met the requirements outlined in the Financial Examiners Handbook of the NAIC.

Current Findings: The Company's current custodial agreement with Smith Barney meets the requirements as outlined in the Financial Examiners Handbook of the NAIC.

Federal Income Taxes Recoverable

Comment: The Company was directed to compute the admitted portion of its deferred tax asset by recognizing all applicable sections of Statement of Statutory Account Principles (SSAP) No. 10 (Income Taxes).

Company's Response: The MDI decision to allow only a portion of the deferred tax asset reported on the 2002 Annual Statement was based entirely on outdated projections which were provided to the MDI in the early part of 2002. As of December 31, 2002, and at the time the 2002 Annual Statement was filed, management reasonably expected that the

Concannon Group would generate adequate income for Traders to realize the deferred tax asset reported. Based upon subsequent operating results, management continues to believe that the admitted portion of the deferred tax asset was reported in compliance with SSAP No. 10.

Current Finding: The Company properly non-admitted that portion of its deferred tax asset as required by SSAP No. 10 for the years under examination.

HISTORY

General

Traders Insurance Company was incorporated on December 12, 1980 as a stock casualty insurance company and granted authority pursuant to the provisions of Missouri Law at Chapter 379 (Insurance other than life) to commence the business of insurance effective July 7, 1982. Traders Insurance Company is a wholly owned subsidiary of Traders Insurance Connection, Inc. (TICI). TICI is in turned wholly owned by Delta Plus Holdings, Inc. (Delta Plus).

Capital Stock

Traders Insurance Company is one hundred percent owned by Traders Insurance Connection, Inc. The Company has authority to issue one million shares of \$1.15 par value common stock, 40,000 shares of \$10.00 par value non-voting preferred stock and 250,000 shares of \$1.00 par value voting preferred stock. As of December 31, 2005, there were 700,000 common shares and 40,000 non-voting preferred shares issued and outstanding, resulting in a capital account balance of \$1,205,000.

Pursuant to a loan agreement discussed in greater detail in the Commitments section of this report, all outstanding shares of stock in Traders Insurance Company and the other member companies of the Delta Plus holding company system are pledged to Dorinco Reinsurance Company as collateral to a loan agreement.

Dividends

No dividends were declared or paid during the period under examination.

Management

The management of the Company is vested in a Board of Directors appointed by the sole shareholder. Pursuant to the Company's Bylaws, the number of directors shall be no fewer than nine and no more than fifteen. As of December 31, 2005, there were only eight directors serving due to the resignation of one of the directors on December 23, 2005. The directors of Traders Insurance Company elected and serving as of December 31, 2005 were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Bernard P. Concannon, III Leawood, KS	Senior Vice President Traders Insurance Company
Barbara J. Concannon Kansas City, MO	Senior Vice President and Treasurer Traders Insurance Company
Colleen C. Fowler Kansas City, MO	Senior Vice President Traders Insurance Company
Mark C. Concannon Kansas City, MO	President and CEO Traders Insurance Company
Patrick J. Concannon Kansas City, MO	Executive Vice President & General Counsel Traders Insurance Company
Michael F. Concannon Eldon, MO	President Michael F. Concannon, Inc.
Timothy J. Hatfield Clearwater, FL	President, COO & CEO Christopher Joseph & Company
William A. Dial, Jr. Atlanta, GA	President First Insurance Network, Inc.

Pursuant to the Company's Bylaws, the officers of the Company shall be a President, one or more Vice Presidents, a Secretary and such other officers as may be elected or appointed by the Board of Directors. The officers elected and serving as of December 31, 2005 were as follows:

<u>Name</u>	<u>Title</u>
Mark C. Concannon	President and Chief Executive Officer
Bernard P. Concannon, III	Senior Vice President
Barbara J. Concannon	Senior Vice President & Treasurer
Patrick J. Concannon	Executive Vice President, COO & Secretary
Colleen C. Fowler	Senior Vice President
Andrew D. Jamieson	Vice President-Claims
Timothy J. Schulte	Vice President-Information Technologies
Peter T. Worth	Vice President-Product Management/Marketing

Conflict of Interest

The Company has procedures requiring all officers and directors to complete a conflict of interest statement annually. Signed statements of conflict of interest were reviewed for the examination period. No significant conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the period under examination. No changes or amendments were made to the Articles of Incorporation during the examination period. Effective July 14, 2003, the Bylaws were amended pursuant to an action of the sole shareholder to change the date of the annual shareholder's meeting.

The minutes of the Company's Board of Directors and sole shareholder meetings were reviewed and in general, appear to properly reflect and approve the corporate transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

There were no acquisitions, mergers or major corporate events noted for the period under examination.

Surplus Debentures

No surplus debentures were issued or outstanding during the examination period.

Commitments

The issued and outstanding capital stock of Traders Insurance Company and the other member companies of the Delta Plus holding company system is pledged as collateral in connection with a loan agreement originally effective October 30, 1995 between Traders Insurance Connection, Inc. (then known as Concannon Group of Companies) and Dorinco Reinsurance Company (Dorinco). The original principal sum of the loan agreement was \$3 million and was secured by a promissory note and stock pledge agreement.

The original loan agreement has been amended several times for various reasons. The most recent amendment effective September 8, 2004 contains modifications of the repayment terms of an underlying promissory note dated November 8, 2002. The new promissory note is for a principal sum of \$4,816,586 at an initial interest rate of 8%, due and payable April 1, 2014 with monthly interest payments of \$32,111. The interest rate is reduced to 7.5% and to 7% when the outstanding principal reaches certain levels. Principal payments are to be made on the first day of September beginning in 2004 and shall be equal to a formula set forth in the promissory note.

The loan agreement also contains a provision that requires Traders to offer Dorinco the opportunity to reinsure 100% of 60% of its automobile quota share reinsurance up to a specified amount, which is adjusted on a bi-annual basis. For the period April 1, 2004 through March 31, 2006, the amount specified was \$13,009,226. As there are no amounts specified subsequent to March 31, 2006, this provision of the loan agreement is deemed to have expired as of that date.

Part of the loan proceeds in prior years were used to provide capital contributions to Traders. Although Traders is not a direct party to the loan agreement, the majority of the written premiums within the Delta Plus holding company system are placed with Traders, and the commission earned on these premiums serves as the primary source of funds to service the loan. In addition, the issued and outstanding stock of Traders is pledged as collateral for the loan and is subject to sale if there are certain events of default.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

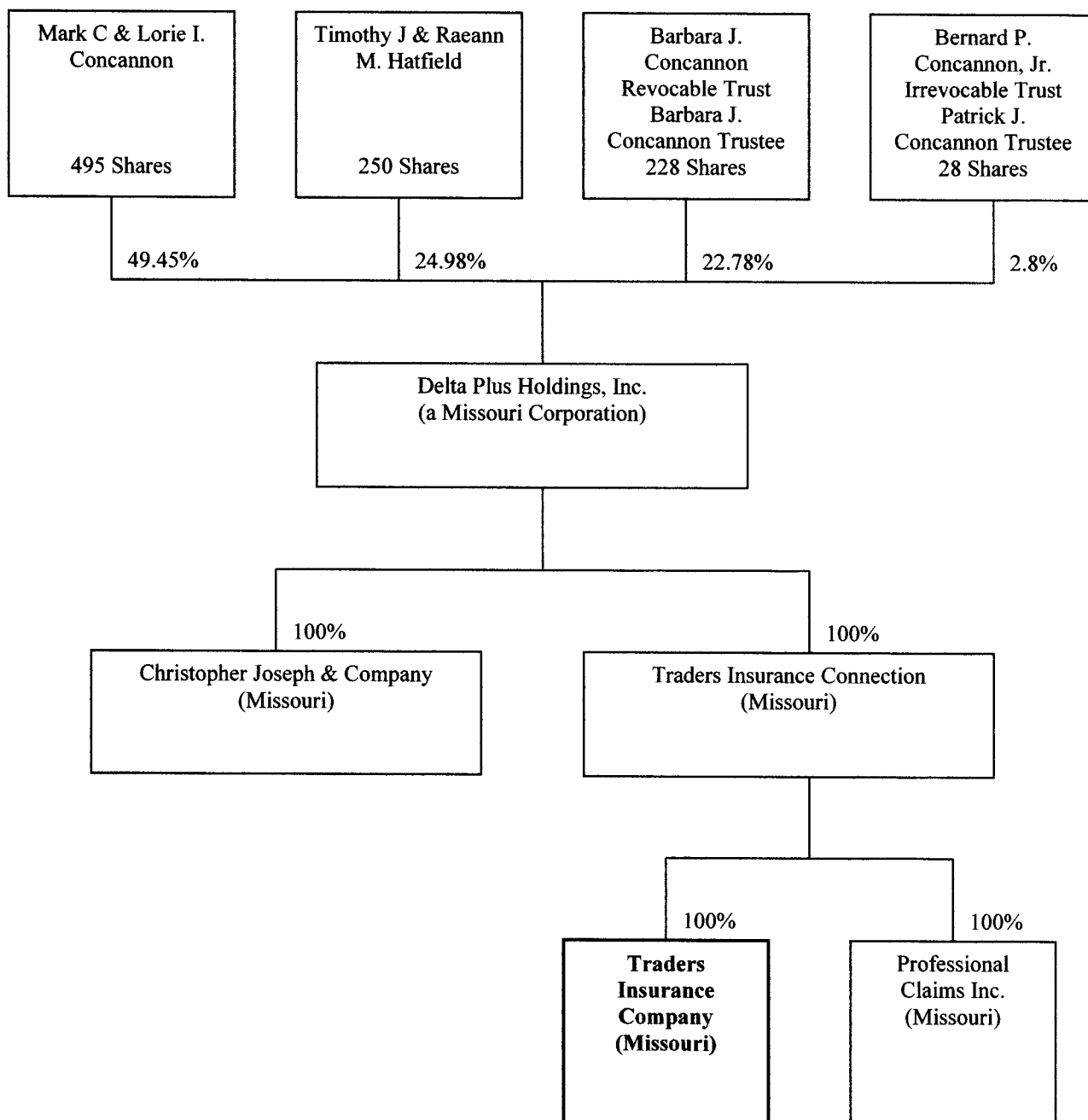
Traders Insurance Company is a member of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). Insurance Holding Company Registration Statements were filed by the Company on behalf of itself during each of the years under examination.

Traders is one hundred percent (100%) owned by Traders Insurance Connections, Inc. (formerly known as Concannon Group of Companies, Inc). TICI is in turn is wholly owned by Delta Plus Holdings, Inc. Delta Plus is a holding company owned in total by the following individuals and entities: Mark C. and Lorie I. Concannon, 49.45%; Barbara J. Concannon Revocable Trust, 22.78%; Timothy J. and Raeann M. Hatfield, 24.98% and Bernard P. Concannon, Jr. Irrevocable Trust, 2.8%. Accordingly, Mark C. and Lorie I. Concannon represent the ultimate controlling persons within the holding company system. Traders stock is pledged as collateral under a loan agreement with Dorinco as described in the prior section of this report.

Delta Plus was incorporated on May 7, 2002 to act as a holding company for TICI and its affiliates and subsidiaries. In addition to TICI, Delta Plus also owns Christopher Joseph and Company (CJC). CJC is a retail insurance agency that distributes private passenger automobile insurance products in the states of Kansas, Oklahoma and Missouri.

Organizational Chart

The following organizational chart depicts the applicable portion of the holding company group, including Traders as of December 31, 2005:



Intercompany Transactions

The Company has several intercompany agreements with its affiliates. These agreements are summarized as follows:

1. Type: Management Agreement

Affiliate: TICI

- Effective: September 1, 1990
- Terms: TICI, as Manager, provides various marketing, underwriting and processing services to Traders for certain lines of insurance products sold in the states in which TICI has been authorized to represent the Company. Monies collected by TICI are to be deposited in a premium trust account in the name of Traders Insurance Company. Traders shall receive interest earned on the funds held in the premium trust account. For its services, TICI receives commission rates based on premium written on specific lines of business or class of business as noted in the agreement. The commission rates range from 22.5% on automobile coverages to 27.5% on property coverages for all states except Oklahoma. The commission rate for Oklahoma is set at 7.5% plus an amount equal to the commissions paid to producers. Traders also reimburses TICI 95% for expense constants, premium billings fees and safety responsibility fees associated with policies serviced by TICI.
2. Type: Lease (Sub-Lease) Agreement
- Affiliate: TICI
- Effective: January 1, 2003
- Terms: Traders agrees to sublease office space for its home office from TICI. The rent due to TICI is \$4,875 per month and is based on the lease costs to TICI and the amount of space utilized by Traders. The agreement automatically renews each year unless terminated.
3. Type: Tax Sharing Agreement
- Affiliates: Delta Plus, TICI and the other subsidiaries of TICI
- Effective: January 1, 1993
- Terms: The agreement requires all member companies to file a consolidated tax return. Tax liabilities and tax credits are allocated among member companies by a method that reasonably reflects income, deductions, net operating losses, or tax credits of each member.
4. Type: Expense Sharing Agreement
- Affiliates: TICI and Professional Claims, Inc. (PCI)

- Effective: April 1, 2001
- Terms: This agreement was entered into by the parties to gain efficiencies in the operations of Traders and its affiliates by combining purchasing power and sharing resources. Expenses are allocated amongst the parties in accordance with Exhibit A attached to the agreement. There is to be an accounting of the transactions covered by the agreement not less than quarterly. Any party owing money as of the accounting date shall pay a balance due from that party to any other party with a credit balance.
5. Type: Claims Management Agreement
- Parties: Traders and PCI
- Effective: September 1, 1990
- Terms: PCI provides claims management and adjusting services to Traders. Fees for loss adjusting expenses are to be determined based on the time and expenses allocated to each claim file for adjustment services per a fee schedule contained in the agreement. The fee section of this agreement is currently inactive as the fees associated with the agreement are determined under the provisions of the Expense Sharing Agreement described in item # 4 above.
6. Type: Promissory Note
- Parties: Traders Insurance Company and TICI
- Effective: April 16, 1992
- Terms: The original note was for \$920,524 with interest to be paid at a rate of 9.5% per annum computed on the unpaid principal balance. Monthly payments of \$11,700 were required for the first five years and increased to \$21,719 for the final two years of the note. Any remaining unpaid principal balance and accrued interest was to be paid in full by of April 1, 1999. The note was amended effective April 1, 1994 to reduce the interest rate to 6.5% and extend the term of the payments. The monthly payments under the amendment were decreased to \$5,090 and are to continue until the loan is paid in full. The unpaid principal amount of the note, which amounted to \$651,827 as of December 31, 2005, has been non-admitted by the Company.

The amounts (paid) to and received from parent and affiliates during the period under examination were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Management Agreement			
Paid to TICI	\$ (4,667,161)	\$ (4,072,585)	\$ (4,877,724)
Lease (Sub-Lease) Agreement			
Paid to TICI	(58,500)	(58,500)	(58,500)
Tax Sharing Agreement			
Paid to TICI	(359,481)	125,757	318,787
Expense Sharing Agreement			
Paid to TICI	(1,908,422)	(1,688,013)	(1,401,400)
Claims Management Agreement *			
Paid to PCI	-	-	-
Promissory Note			
Received from TICI	61,080	61,080	61,080
Net amount (paid) or received	\$ (6,932,484)	\$ (5,632,261)	\$ (5,957,757)

* Payments made under the Claims Management Agreement are included in the amounts reported under the Expense Sharing Agreement

FIDELITY BOND AND OTHER INSURANCE

The Company, along with its parent and affiliates, is a named insured on a policy providing employee dishonesty coverage with a limit of liability of \$300,000 and a \$15,000 deductible. This level of coverage is sufficient to meet the suggested minimum amount of fidelity insurance coverage according to NAIC guidelines.

The Company is also a named insured on the following insurance policies:

Workers Compensation	Commercial Protection/Businessowners
Directors and Officers Liability	Commercial Auto

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Traders Insurance Company employees are paid by, and receive benefits from, the Company's direct parent, TICI, in accordance with an Expense Sharing Agreement discussed in greater detail in the Intercompany Transactions section of this report. TICI maintains a 401(K) plan for substantially all employees and provides a variety of other benefits which include, but are not limited to, medical coverage, dental coverage and Section 125 flexible spending accounts.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2005, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo (Insurance other life-security deposits). The funds on deposit as of December 31, 2005 were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$1,600,000	\$1,590,310	\$1,602,342

Deposits with Other States

The Company also has funds on deposit with the State of New Mexico. The funds on deposit with New Mexico as of December 31, 2005 were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
FNMA Bonds	\$325,000	\$321,657	\$323,857

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

Traders Insurance Company is licensed by the Missouri Department of Insurance under Chapter 379 (Insurance other than life), to write the business of property and casualty insurance. As of December 31, 2005, the Company was also licensed in the following seven states:

Arizona	Indiana
Iowa	Kansas
Nebraska	New Mexico
Oklahoma	

Subsequent to the examination date, the Company became licensed in Arkansas, Florida and Kentucky. In addition, the Company has licenses pending in Wisconsin and Minnesota.

The Company writes non-standard private passenger automobile liability and property damage coverage. Automobile liability coverage represented 98% of direct written premiums in 2005 with the remaining 2% consisting of property damage. Although licensed in eight states, the Company only actively writes business in Missouri, Kansas, New Mexico and Oklahoma.

The Company markets its business through approximately 800 independent agents. The Company's immediate parent, Traders Insurance Connection, Inc. provides marketing, premium processing, and claims services. TICI contracts with and supervises third-party independent agents on behalf of the Company. In addition, a wholly owned subsidiary of TICI, Christopher Joseph and Company d/b/a A Bargain Insurance Agency (ABIA) produces business for the Company on a commission basis. During 2005, ABIA produced 34% of the Company's written premiums.

Policy Forms & Underwriting

Advertising & Sales Materials

Treatment of Policyholders

The Missouri Department of Insurance has a Market Conduct staff that performs a review of these issues and generates a separate market conduct report. A market conduct examination (examination number 0510/30/TGT) which covered the period July 1, 2004 through June 30, 2005 was conducted in 2005. No significant violations or exceptions were noted from our review of this report.

REINSURANCE

General

The Company's reinsurance and premium activity during the period under examination is as follows:

<u>Premiums</u>	2005	2004	2003
Direct premiums written	\$ 13,523,342	\$ 14,152,681	\$ 14,234,534
Reinsurance assumed	-	-	-
Reinsurance ceded	(4,056,974)	(4,245,813)	(4,033,034)
Net premiums written	<u>\$ 9,466,368</u>	<u>\$ 9,906,868</u>	<u>\$ 10,201,500</u>

Assumed

The Company did not assume any business during the period under examination.

Ceded

The Company is contingently liable for all reinsurance losses ceded or retroceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

The Company's ceded reinsurance program is conducted entirely with Dorinco Reinsurance Company (Dorinco) under a private passenger automobile quota share reinsurance contract effective June 1, 2004. Under the terms of the agreement, the Company cedes 30% of the liability on all business written to Dorinco, subject to the reinsurer's limits specified below:

<u>Coverage</u>	<u>Limits</u>
Automobile physical damage	\$35,000 each vehicle
Automobile bodily injury liability	\$25,000 each person/\$50,000 each loss occurrence
Property damage liability	\$25,000 each loss occurrence
Uninsured/Underinsured Motorists	\$25,000 each person/\$50,000 each loss occurrence
Personal injury protection	Minimum statutory limit
Medical payments	\$2,000
Uninsured motorist property damage	Minimum statutory limit

Coverage relating to extra contractual obligations and/or loss in excess of original policy limits shall not exceed \$300,000 per occurrence.

The agreement also provides for the Company to receive a provisional ceding commission equal to twenty-seven percent (27%) of premiums earned. This provisional commission is subject to adjustment depending on the actual loss ratio of the business ceded for each underwriting year.

The Company is also a party to a loan agreement between Dorinco and its parent, TICI. This agreement is discussed in greater detail in the Commitments section of this report. Under a provision of the loan agreement, which expired effective March 31, 2006, Traders was required to give Dorinco the right of first refusal to provide reinsurance on its private passenger automobile line of business. At this time, the expiration of the right of first refusal provision is not anticipated to affect the Company's reinsurance program.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements for the year ending December 31, 2003 were audited by the CPA firm of Deloitte & Touche LLP, of Kansas City, Missouri. The Company's financial statements for the year ending December 31, 2004 were audited by the CPA firm of Johnson Lambert & Company, Charleston, South Carolina. Johnson Lambert & Company was also retained to perform the year-end 2005 statutory audit. Audited statutory financial statements for 2005 were not issued until after the end of our examination fieldwork.

Independent Actuary

Loss reserves of the Company were reviewed and certified by Thomas F. Head, ACAS, MAAA, of Professional Actuarial Services, Inc., of Fort Worth, Texas for each of the years under examination.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2005. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements." (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been additional differences found in the course of this examination that are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$ 8,321,027		\$ 8,321,027
Common stocks	550,332		550,332
Cash, cash equivalents and short-term investments	2,040,916		2,040,916
Other invested assets	651,827	\$ 651,827	-
Investment income due and accrued	78,024		78,024
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,355,618		1,355,618
Amounts recoverable from reinsurers	386,191		386,191
Other amounts receivable under reinsurance contracts	190,554		190,554
Current federal and foreign income tax recoverable	261,740		261,740
Net deferred tax asset	502,691	258,610	244,081
Guaranty funds receivable or on deposit	19,204		19,204
Electronic data processing equipment and software	933	933	-
Furniture and equipment	104	104	-
Aggregate write-ins for other than invested assets			
Miscellaneous prepaid	22,783	22,783	
Premium tax refund	2,311	2,311	
Premium tax recoverable	51,576	-	51,576
Total Assets	<u>\$ 14,435,831</u>	<u>\$ 936,568</u>	<u>\$ 13,499,263</u>

Liabilities, Surplus and Other Funds

Losses	\$ 4,268,758
Loss adjustment expenses	1,117,443
Other expenses (excluding taxes, licenses and fees)	129,886
Taxes, licenses and fees (excluding federal income taxes)	845
Unearned premiums	1,420,437
Advance premiums	25,831
Ceded reinsurance premiums payable	845,648
Amounts withheld or retained by company for account of others	71,127
Payable to parent, subsidiaries and affiliates	<u>308,490</u>
Total liabilities	\$ 8,188,465
Common capital stock	\$ 805,000
Preferred capital stock	400,000
Gross paid in and contributed surplus	4,631,011
Unassigned funds (surplus)	<u>(525,214)</u>
Total Capital and Surplus	<u>\$ 5,310,797</u>
Total Liabilities and Capital and Surplus	<u><u>\$ 13,499,262</u></u>

Statement of Income

Underwriting Income

Premiums earned	\$ 9,702,180
Losses incurred	5,129,585
Loss expenses incurred	954,684
Other underwriting expenses incurred	3,673,630
Total under writing deductions	9,757,899

Net underwriting gain/(loss)	(55,719)
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Investment Income

Net investment income earned	321,105
Net realized capital gains or (losses)	(6,473)

Net investment gain or (loss)	314,632
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Other Income

Finance and service charges not included in premiums	58,956
Miscellaneous income	9,242

Total other income	68,198
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Net income before dividends to policyholders and federal income taxes	\$ 327,111
Federal and foreign income taxes incurred	100,832

Net Income	\$ 226,279
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Capital and Surplus Account

Capital and surplus, December 31, 2004	\$ 5,069,130
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Net income	\$ 226,279
Change in unrealized capital gains	641
Change in net deferred income tax	(31,751)
Change in nonadmitted assets	46,497

Net change in capital and surplus for the year	241,666
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Capital and surplus, December 31, 2005	\$ 5,310,796
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NOTES TO THE FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None

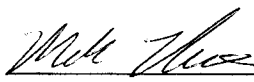
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Traders Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Barbara Bartlett, CFE, CPA, and Alvin Garon, CFE, examiners for the Missouri Department of Insurance, participated in this examination. Andrew Balas, CFE, AES, Computer Audit Specialist for the Missouri Department of Insurance performed a review of the information system environment. The actuarial firm of Lewis & Ellis, Inc., of Overland Park, Kansas performed an actuarial analysis as part of this examination.

VERIFICATION

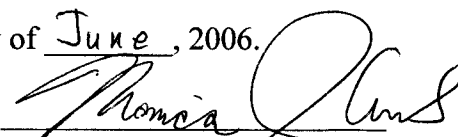
State of Missouri)
)
 County of Jackson)

I, Mark Nance, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


 Mark Nance, CPA, CFE
 Examiner-In-Charge
 Missouri Department of Insurance

Sworn to and subscribed before me this 13th day of June, 2006.

My commission expires: 3/10/2009


 Notary Public

MONICA J. CURLS
 Notary Public - Notary Seal
 STATE OF MISSOURI
 County of Jackson
 My Commission Expires 3/10/2009
 Commission # 05679768

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in cursive script, reading "Frederick G. Heese".

Frederick G. Heese, CFE, CPA

Audit Manager

Missouri Department of Insurance